

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC PRIORITY 8367

INFO AMCONSUL MONTREAL

AMCONSUL CALGARY

AMCONSUL HALIFAX

AMCONSUL QUEBEC

AMCONSUL ST JOHNS

AMCONSUL TORONTO

AMCONSUL VANCOUVER

AMCONSUL WINNIPEG

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E.O. 11652: N/A

TAGS: ECON, CA, ELAB

SUBJ: GOC ANNOUNCES REDUCTIONS IN FEDERAL SPENDING

1. IN WELL-TIMED MOVE TO LEND FURTHER CREDENCE TO GOC'S DETERMINATION TO COMBAT INFLATION PM TRUDEAU IN TV SPEECH DEC 18 OUTLINED REDUCTIONS IN FEDERAL EXPENDITURES SHORTLY AFTER TREASURY BOARD PRESIDENT CHRETIEN DETAILED ANTICIPATED OVERALL SAVINGS OF NEARLY DOLS 1.5 BILLION IN NEXT YEAR'S BUDGET. SAME EVENING ANTI-INFLATION BOARD'S COMPLEX REGULATIONS WERE RELEASED.

2. FEDERAL CUTBACKS WILL FALL INTO THREE CATEGORIES, NAMELY SALARY FREEZES AND HIRING LIMITATION IN PUBLIC
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SECTOR, ELIMINATION OF THREE PROGRAMS AND CUTBACKS

IN OTHERS.

3. SALARIES OF ALL SENIOR CIVIL SERVANTS, INCLUDING RCMP, ARMED FORCES, JUDGES, EXECUTIVES OF CROWN CORPORATIONS, GOVERNMENT BOARDS AND COMMISSIONS, EARNING ABOVE DOLS 27,500 WILL BE FROZEN FOR 15 MONTHS. PARLIAMENT WILL BE ASKED TO CANCEL ITS 7 PERCENT SALARY INCREASE DUE JAN 1. NO INCREASE IN MANYEARS IN SENIOR EXECUTIVE CATEGORIES FOR 15 MONTHS. CIVIL SERVICE GROWTH TO BE HELD NEXT YEAR TO 1.5 PERCENT. TREASURY BOARD PROJECTED NET INCREASES OF 5,000 PUBLIC SECTOR EMPLOYEES.

4. PROGRAMS TO BE ELIMINATED ARE COMPANY OF YOUNG CANADIANS (COMMUNITY SELF-HELP PROJECTS) WITH RESULTANT SAVINGS OF DOLS 6 MILLION; OPPORTUNITIES FOR YOUTH DOLS 36 MILLION; INFORMATION CANADA DOLS 5 MILLION.

5. PRIME MINISTER LISTED FOLLOWING PROGRAMS SCHEDULED FOR REDUCTIONS: ELIMINATE FOR ONE YEAR AUTOMATIC INCREASES OF FAMILY ALLOWANCES REPRESENTING DOLS 221 MILLION SAVING. IN MANPOWER FIELD, LOCAL INITIATIVES PROGRAM WILL BE REDUCED BY DOLS 35 MILLION AND CANADA MANPOWER TRAINING PROGRAM WILL SAVE DOLS 20 MILLION BY REDUCING ALLOWANCES AND TIGHTENING ELIGIBILITY. BILINGUALISM PROGRAM CUT OF 20 PERCENT WILL PRODUCE DOLS 10 MILLION SAVING. PUBLIC WORKS BUDGET TO BE REDUCED DOLS 30 MILLION; DOLS 60 MILLION SAVING FROM STRETCHING OUT CONSTRUCTION OF ATOMIC ENERGY'S HEAVY WATER PLANT WITH OTHER GOVERNMENT GRANTS TO INDUSTRY OF R&D TO BE REDUCED BY DOLS 9 MILLION AND GRANTS FOR RESEARCH IN PHYSICAL AND SOCIAL SCIENCES FROZEN AT PRESENT LEVELS. DEPT OF NATIONAL DEFENCE WILL HAVE 5 PERCENT STAFF REDUCTION, SAVING DOLS 5MILLION IN CIVILIAN PAY AND RELEASING MILITARY PERSONNEL FOR DUTY OUTSIDE CAPITAL AREA. FOREIGN AID (CIDA) WILL BE LIMITED TO 10 PERCENT INCREASE NEXT YEAR (LESS THAN HALF THE ANNUAL RATE OF PAST FIVE YEARS) AND EXTERNAL AFFAIRSMUST FINANCE NEW POSTS BY REDUCTIONS IN EXISTING ONES. TOTAL CUTBACKS ESTIMATED TO SAVE DOLS 446 MILLION NEXT YEAR.

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6. P.M. TOUCHED ONLY BRIEFLY ON THE ANTI-INFLATION BOARD STATING THAT GOC OWES IT TO WORKERS TO SHOW THAT GUIDELINES ARE BEING APPLIED TO PRICES BY LIMITING ALLOWABLE INCREASES TO RISE IN COSTS. ANTI-INFLATION BOARD REGULATIONS ISSUED YESTERDAY SPECIFY THAT PROFITS ON EXPORT SALES EXCEEDING THE GUIDELINES ARE SUBJECT TO 100 PERCENT EXPORT LEVY, UNLESS THESE EXCESS PROFITS ARE REINVESTED IN APPROVED DOMESTIC UNDERTAKINGS, IN WHICH

CASE 90 PERCENT OF LEVY IS REFUNDABLE. OTHERWISE, SUCH COMPANIES WILL HAVE 75 PERCENT OF EXPORT LEVY REFUNDED AFTER THREE OR MORE YEARS. (SEE SEPTTEL). ANTI-INFLATION REGULATIONS BEING POUCHED TO EUR/CAN (BLAKEMORE) AND TREASURY (HARLOW).

7. IN ANOTHER ATTEMPT TO MAKE ANTI-INFLATION PROGRAM MORE PALATABLE TO LOWER INCOME GROUPS GOC ANNOUNCED YESTERDAY A 10 PERCENT SURCHARGE ON ALL INCOME TAX DUE ABOVE DOLS 8,000. THIS WOULD APPLY TO EARNINGS ABOVE DOLS 30,000 FOR INDIVIDUAL WITH THREE DEPENDENTS USING STANDARD DEDUCTIONS.

8. INITIAL COMMENTS BY PARLIAMENTARY OPPOSITION WAS AS EXPECTED. P.C. LEADER STANFIELD CHARACTERIZED ANNOUNCED REDUCTIONS AS LOT OF UNCONVINCING NONSENSE AND ACCUSED GOC OF NOT COMING TO GRIPS WITH ITS WASTE AND INEFFICIENCY, BUT INSTEAD CUTTING NECESSARY SERVICES AND TRANSFER PAYMENTS. HE REITERATED P.C. SUPPORT OF ANTI-INFLATION PROGRAM IN PRINCIPLE BUT ADDED THAT CREDIBILITY ALREADY UNDERMINED AND PROGRAM DURATION TOO LONG. N.D.P. LEADER BROADBENT STATED THAT ANNOUNCED CUTS WILL HURT POOR MORE THAN RICH IN THAT FAMILY ALLOWANCE REDUCTIONS MORE SEVERE THAN INCOME TAX SURCHARGE AND THAT MANPOWER PROGRAMS SHOULD NOT BE REDUCED IN VIEW OF 7.2 PERCENT UNEMPLOYMENT WHILE GOVERNMENT WASTE CONTINUES UNABATED.

9. COMMENT: THE REDUCTIONS ANNOUNCED YESTERDAY WHILE NOT DRASTIC IN TERMS OF OVERALL SAVINGS, DO REFLECT SERIOUS ATTEMPT BY GOC TO SET AN EXAMPLE IN HOPES OF CONVINCING BUSINESS, LABOR AND SOCIETY AS A WHOLE OF ITS SINCERE INTENTIONS TO MAKE ANTI-INFLATION PROGRAM WORK.
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NO DOUBT GOVERNMENT'S RESOLVE TO REDUCE INFLATIONARY EXPECTATIONS WILL BE TESTED IN MONTHS TO COME AS FEDERAL PROGRAM REDUCTIONS AND ANTI-INFLATION BOARD MEASURES MAKE THEMSELVES FELT. PRIME MINISTER'S RENEWED COMMITMENT TO LOWER RATE OF INFLATION MAY YET BODE WELL IN THE LONG RUN.
PORTER

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